

## Message Text

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PAGE 01 LIMA 08635 221853Z

43

ACTION ARA-10

INFO OCT-01 ISO-00 ARAE-00 SP-02 USIA-06 AID-05 EB-07

NSC-05 CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 IGA-02 /087 W

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P R 221700Z SEP 76

FM AMEMBASSY LIMA

TO SECSTATE WASHDC PRIORITY 1917

INFO AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY CARACAS

AMEMBASSY LA PAZ

AMEMBASSY QUITO

AMEMBASSY SANTIAGO

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E.O. 11652: N/A

TAGS: EGEN, EFIN, EALR, PE

SUBJECT: PERU'S MINI-DEVALUATION PROGRAM

REF: LIMA 8544, LIMA 8483

BEGIN UNCLASSIFIED

1. BEGIN SUMMARY: ON SEPTEMBER 20 PERU ADOPTED A NEW FOREIGN EXCHANGE RATE POLICY WHICH CONSISTS, ACCORDING TO OFFICIAL STATEMENTS, OF QUOTE SMALL READJUSTMENTS OF THE SOL WHICH WILL BE CARRIED OUT PERIODICALLY WHEN NECESSARY UNQUOTE. END SUMMARY.

2. THE STATED OBJECT OF THIS NEW POLICY IS TO MAINTAIN A REALISTIC EXCHANGE RATE WHICH HAS THE CONFIDENCE OF BUSINESSMEN AND WHICH AVOIDS STRONG INFLATIONARY IMPACTS. THE OFFICIAL ANNOUNCEMENT OF THE MINI-DEVALUATION PROGRAM WAS MADE BY THE LIMITED OFFICIAL USE

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PAGE 02 LIMA 08635 221853Z

PRESIDENT OF THE BANCO CENTRAL DE RESERVA, DOCTOR CARLOS

SANTISTEVAN AT A MID-DAY PRESS CONFERENCE.

3. SANTISTEVAN ALSO STATED THAT HE WAS TRAVELLING TO THE UNITED STATES TO COMPLETE NEGOTIATIONS WITH SIX U.S. BANKS FOR A \$125 MILLION LOAN. HE ALSO MADE PUBLIC THE FACT THAT A \$400 MILLION CREDIT PACKAGE WAS IN A FINAL STAGE OF NEGOTIATION. ACCORDING TO SANTISTEVAN'S ANNOUNCEMENT, OTHER U.S. BANKS WILL LEND \$75 MILLION (IN ADDITION TO THE \$125 MILLION LOAN) CANADIAN BANKS WILL LEND \$30 MILLION, EUROPEAN BANKS WILL LEND \$100 MILLION, AND JAPAN AND SWISS BANKS WILL LEND \$70 MILLION. SANTISTEVAN DENIED ANY AND ALL POSSIBLE INTERFERENCE BY PRIVATE INTERNATIONAL BANKS AND OTHER FINANCIAL ORGANIZATIONS IN THE INTERNAL AFFAIRS OF PERU.

4. SANTISTEVAN STATED THAT THE NEW EXCHANGE RATE POLICY IS A DEFINITE BREAK FROM THE POLICY OF A FIXED EXCHANGE RATE. HE NOTED THAT THE FIXED EXCHANGE RATE POLICY CAUSED AND OVERVALUATION OF THE SOL WHICH HAD REQUIRED A DEVALUATION OF GREAT MAGNITUDE WITH A CORRESPONDING UPSET FOR THE ECONOMY AND HIGH POLITICAL, ECONOMIC AND SOCIAL COSTS.

5. THE GENERAL MANAGER OF THE CENTRAL BANK, ALONSO POLAR CAMPOS, EXPLAINED TO THE PRESS THAT THE FUTURE MINI-DEVALUATIONS WILL BE GOVERNED BY THE RELATIONSHIP BETWEEN DOMESTIC COSTS AND PRICES AND THOSE IN COUNTRIES WHICH ARE PERU'S MAJOR TRADING PARTNERS. POLAR ALSO STATED THAT THE PROJECTED INCREASE IN DOMESTIC PRICES FROM OCTOBER 1976 TO OCTOBER 1977 IS 17 PERCENT WHILE THAT OF THE INDUSTRIALIZED COUNTRIES IS 6 PERCENT, AND FOR THAT REASON EXCHANGE-RATE READJUSTMENTS MAY BE FEW AND SMALL. END UNCLASSIFIED

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6. OUR CONVERSATION WITH AN OFFICIAL OF THE BANCO CENTRAL DE RESERVA TODAY INDICATED THAT THE GOP HAS EMBARKED ON A MINI-DEVALUATION PROGRAM. THE GENERAL MANAGER OF THE CENTRAL BANK WILL DECIDE THE AMOUNTS AND DATES OF THE DEVALUATIONS. THE EXCHANGE RATE PROGRAM WILL CONSIST OF MANY SMALL DEVALUATIONS RATHER THAN A FEW LARGER DEVALUATIONS, AND MINI-DEVALUATIONS MAY TAKE PLACE MORE THAN ONCE PER WEEK. BASICALLY THE PROGRAM LIMITED OFFICIAL USE

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PAGE 03 LIMA 08635 221853Z

ENTAILS QUARTERLY EXCHANGE RATE TARGETS. AT THE PRESENT TIME, A RATE OF 69 SOLES TO US DOLLAR IS ANTICIPATED FOR THE END OF 1976. CENTRAL BANK OFFICIALS BELIEVE THAT THE SOL IS PRESENTLY ABOUT A PARITY AND THE MINI-DEVALUATION PROGRAM TARGETS WILL BE SET BY A SIMPLE ECONOMETRIC MODEL OF CHANGES IN DOMESTIC AND EXTERNAL COSTS AND PRICES AND DOMESTIC ECONOMIC PERFORMANCE. CENTRAL BANK OFFICIALS HOPE THAT THE MINI-DEVALUATION SYSTEM WILL STABILIZE EXCHANGE-RATE EXPECTATIONS AND THEREBY RENEW EXTERNAL

BORROWING BY DOMESTIC BUSINESS ENTERPRISES. RESUMPTION OF  
EXTERNAL BORROWING WILL REDUCE OR ELIMINATE THE EXTREME HIGH  
NET OUTFLOW ON SHORT-TERM CAPITAL WHICH HAS OCCURRED TO DATE  
IN 1976.

7. WE ARE INFORMED THAT THE BANCO DE LA NACION WILL INITIATE  
A 24-HOUR EXCHANGE-RATE GUARANTEE SYSTEM FOR PEOPLE WHO BUY  
FOREIGN EXCHANGE AND WILL EXTEND ITS OFFICE HOURS. SUCH  
MEASURES WILL MINIMIZE DOCUMENTARY PROBLEMS FOR PERUVIANS  
TRAVELLING ABROAD.  
DEAN

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCIAL STABILITY, DEVALUATIONS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 22 SEP 1976  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** CunninFX  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1976LIMA08635  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D760358-0141  
**From:** LIMA  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1976/newtext/t19760933/aaaabbzl.tel  
**Line Count:** 126  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION ARA  
**Original Classification:** LIMITED OFFICIAL USE  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** LIMITED OFFICIAL USE  
**Previous Handling Restrictions:** n/a  
**Reference:** 76 LIMA 8544, 76 LIMA 8483  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** CunninFX  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 15 JUL 2004  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <15 JUL 2004 by ellisoob>; APPROVED <22 OCT 2004 by CunninFX>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
04 MAY 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PERU'S MINI-DEVALUATION PROGRAM  
**TAGS:** EGEN, EFIN, EALR, PE  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006